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Backgrounder

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Immigrants' Declining Earnings:

Reasons and Remedies

Christopher Worswick

The Backgrounder in Brief

Earnings of recent immigrants are declining. Those who arrived in the late 1980s and late 1990s earned less than those who arrived in the late 1970s. There are many reasons — and some remedies. For starters, the federal government should revise the Skilled Worker Category for selecting immigrants.

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Immigration is a vital and a contentious area in Canada. The federal government's high target levels for immigration, coupled with questions surrounding the labour market success of recent new arrivals, have created confusion for many casual observers of the issue. On the one hand, they hear repeated calls for sustained high levels of annual immigrant intake, with the possibility of increases in the near future. On the other, many recent studies have found that the more recent immigrant arrival cohorts — defined in terms of year of arrival in Canada — have earned less than earlier ones.

Many researchers have attempted to measure the net effect of immigration on countries such as Canada, Australia and the United States (Card, 1990; Grant, 1998; Addison and Worswick, 2002). For the most part, they found only a relatively small impact, or none at all, on native-born people's wages and other aspects of the labour market. As a result, while immigration tends to lead to a higher gross domestic product, GDP per capita is generally unaffected by it. This does not necessarily imply that Canadians do not value immigration. Polling and anecdotal evidence indicates that Canadians attach value to diversity for its own sake; perhaps Canadians also seek to give people from other countries the opportunity to come to the country to build better lives for themselves and their children.

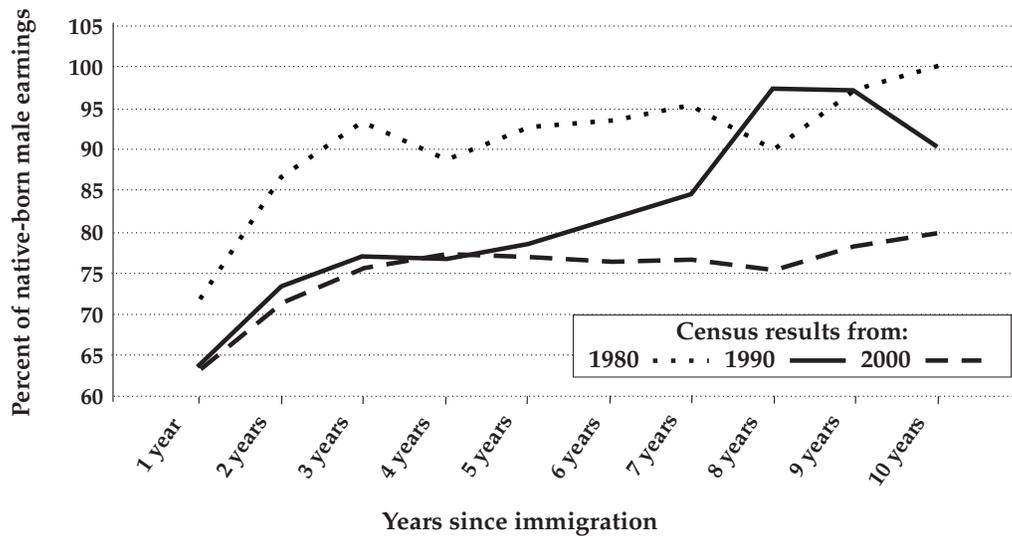
Assuming Canadians want immigrants to be economically self-sufficient and not a net drain on government resources, it is relevant to look at the historical success of immigrants in the Canadian labour market. This *Backgrounder* reviews a number of recent studies and puts forward several policy recommendations on the basis of their conclusions. Those recommendations are:

- Postpone any increase in the total level of annual immigration until an improvement occurs in the performance of new immigrants in the labour market;
- Maintain the current composition of immigrant intake according to the different admissions categories;
- Reward applicants with an education from a system that is similar to Canada's by awarding more points for education credentials that are recognized by Canadian employers;
- Reward applicants with relevant work experience by awarding higher points for that which is recognized by Canadian employers, and
- Place greater emphasis on employer sponsorship as part of the admission of skilled workers.

How Immigrants Fared in the Labour Market Since 1970

A number of studies have found a decline in the earnings of recent immigrants compared with those of earlier generations, using the same number of years since migration to Canada as a benchmark (Reitz, 2001). Immigrants who arrived in the late 1980s and late 1990s had lower earnings after the same number of years in Canada than did immigrants who arrived in the late 1970s.

I have benefited from the comments and suggestions of Finn Poschmann, Arthur Sweetman and four anonymous referees.

Figure 1: *Earnings of recent immigrant men relative to earnings of the Canadian-born*

Source: Finn Poschmann's calculations based on Statistics Canada Census Data Release, March 11, 2003.

Figure 1 illustrates the difference in average earnings of recent immigrant males and Canadian-born men for different numbers of years of residence in Canada and for different census years. The crossing of the lines for the 1980 and 1990 census years indicates that those immigrants who had been in Canada eight-to-10 years had earnings that were roughly the same in the two years. However, incomes of immigrants who had been in Canada eight-to-10 years by the time of the 2000 census were lower.

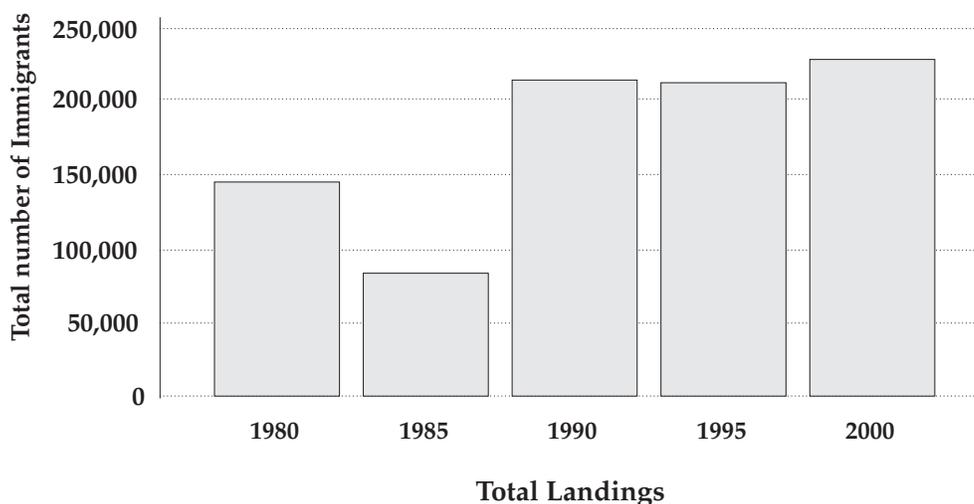
Overview of Canadian Immigration Policy

In 1980, the total number of newly landed immigrants was 143,136 (Figure 2). The total was lower in 1985, at 84,333, after Ottawa imposed restrictions on the numbers admitted each year, beginning during the relatively deep recession of the early 1980s. By 1990, the total number of landings rebounded to 216,402 and the figure remained high, ending the decade at 227,313.

Immigrants are admitted into Canada based on different criteria. These can be grouped into four broad classifications:

- Economic immigrants (including skilled workers and business immigrants);
- Family sponsorships;
- Refugees, and
- All others.

The criteria for admission, which appear on the Citizenship and Immigration Canada (CIC) website (cic.gc.ca) vary widely across the categories. Admission

Figure 2: *Total Immigrant Landings in Canada: 1980-2000*

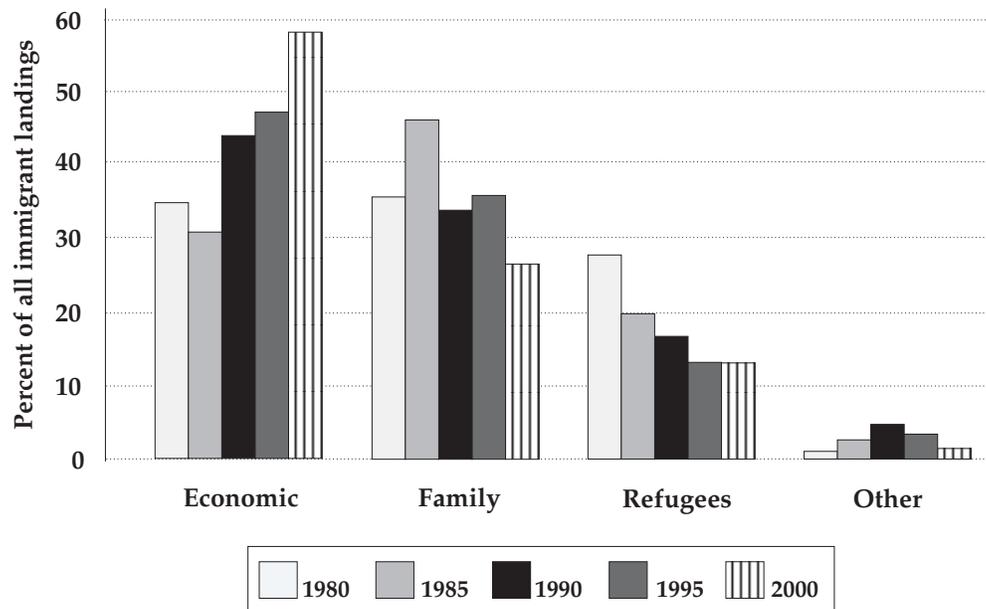
Source: Author's calculations using Immigrant Landings Database.

under the Skilled Worker Category is based on the applicants' receiving points based on factors related to their likely success in the Canadian labour market. The maximum possible number of points is 100. On September 18, 2003, the federal government lowered the number of points needed for admission to 67 from 75 because of concern that the higher number excluded too many strong applicants. The six selection factors that determine the number of points are: 1) Education (up to 25 points). 2) Official Languages (up to 24 points). 3) Experience (up to 21 points). 4) Age (up to 10 points). 5) Arranged Employment in Canada (up to 10 points), and 6) Adaptability (up to 10 points).

The Cullen-Couture Agreement, signed in 1978, gave the Québec government the ability to influence the size and composition of its immigrant population. That capacity was reinforced following the 1991 Canada-Québec Agreement that granted the province exclusive responsibility for the selection of immigrants belonging to the categories of economic immigrants, as well as those who are seeking refugee status and for other people in distress located abroad. Therefore, the points do not apply to immigrant applicants who intend to land in Quebec.

However, a similar system is in place where points are allocated based on the educational and professional credentials of the applicant. Parent and Worswick (2003) compare the inflow of immigrants arriving in Quebec compared with the rest of Canada from 1980 to 2000. The Quebec results indicate a small shift away from the economic category, with greater importance given to education for those coming in through the economic category.

The share of immigrants in each category has changed dramatically over the past two decades (Figure 3). The percentage in the economic category fell to 31 percent from 34.9 percent between 1980 and 1985, then rose steadily over the remainder of the period, reaching 58.7 percent in 2000. The family category

Figure 3: Percentages of Immigrant Landings By Admission Category and Year of Landing

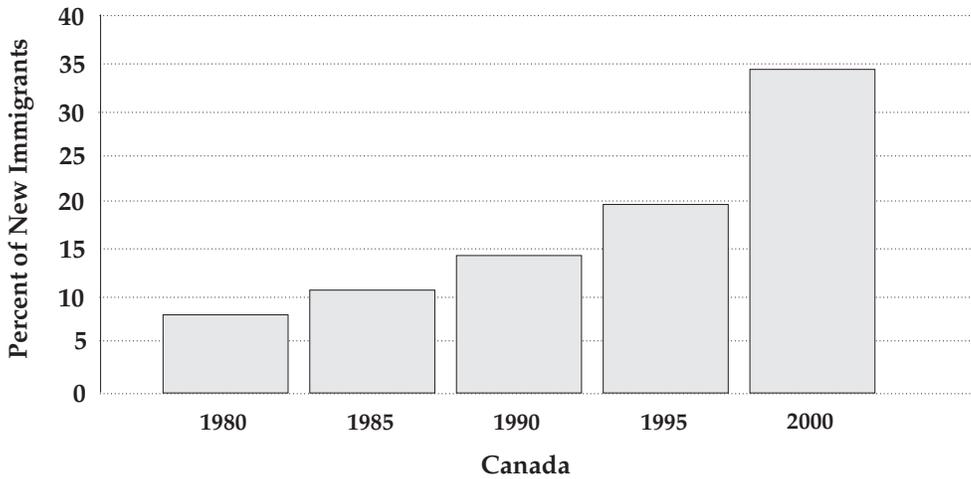
Source: Author's calculations using Immigrant Landings Database.

followed the opposite pattern, starting at 35.9 percent, then rising to 46.7 percent in 1985 before falling over much of the remaining period to a low of 26.6 percent in 2000. The percentage in the refugee category fell over the period to roughly 13 percent in 1995 and 2000 from a high of 28.2 percent in 1980. In summary, the changes over the period have mainly been towards increasing the economic category at the expense of the family and refugee categories. It is especially surprising to see the decline in immigrant earnings shortly after arrival in Canada given this shift towards accepting immigrants with credentials that are expected to enable them to be especially successful in the Canadian labour market.

Owing to a change in emphasis on education, in terms of the points awarded for it and because of much greater emphasis placed on post-secondary education — McWhinney (1998) describes this shift in detail — there has been a relatively large increase in the proportion of new immigrants with high levels of education (Figure 4).

The percentage of newly arrived immigrants with a university degree rose to 34.1 percent in 2000 from 7.6 percent in 1980, with a substantial part of the increase occurring since 1995. Similarly, Frenette and Morissette (2003) find, however, that even with a dramatic increase in the education levels of recent immigrant men, their real earnings fell by 7 percent on average between 1980 and 2000.

A key question for Canadian immigration policymakers is the reason why the increase in education has not led to better labour-market performance. If employers generally do not recognize the credentials of the new immigrants as being equivalent to those of native-born Canadians, then changing the selection of immigrants so that more of them have higher educational qualifications will not necessarily lead to better labour-market performance for them.

Figure 4: *Percentage of Newly Landed Immigrants with a University Degree: 1980-2000*

Source: Author's calculations using Immigrant Landings Database.

Transferability of Foreign Education

An important issue for immigration policymakers relates to whether the low earnings of more recent arrivals reflect permanent differences compared to the earlier immigrants or whether they reflect a fundamental change in the adjustment process. It may be that the early experiences of recent immigrants are related to a lack of fluency in English and French, a shortcoming that may be overcome in time and with investments in language training. Schaafsma and Sweetman (2001) find much higher earnings for immigrants who arrive in Canada as adults and list English as their mother tongue. In addition, the change in source country composition may have led to problems in terms of the recognition of foreign educational credentials by Canadian employers. Modest investments in training or work experience shortly after arrival in Canada could create better job prospects for these immigrants.

Instead, the education of recent immigrants may be of lower quality than that of their Canadian peers. Yet another possibility is that the skills gained in the home country are not as valued in the Canadian labour market. In this case, the educational qualifications are not necessarily inferior, but are different and therefore not recognized as equivalent to the Canadian credentials. In either case, immigrants will have to make large investments in training before they are able to get the jobs that they expected to obtain based on their pre-migration educational credentials.

The transfer of skills gained from foreign schooling into the Canadian labour market is not operating as most immigration policymakers would like it to. Far too many immigrants are unable to get jobs based on their pre-migration educational credentials in their chosen fields. Yet, as part of the Skilled Worker Class of immigrant admission, Canada rewards applicants with up to 25 points for their

foreign education, making them more likely to meet the 67-point minimum. This suggests a need for reexamining how Canadian policy defines and applies the education criterion.

Evaluating Foreign Work Experience

A second form of foreign skill accumulation that receives a great deal of attention by researchers is the accumulation of human capital through work experience prior to arrival in Canada. Immigrants from more recent entry groups are receiving a very low rate of return in the labour market from work experience gained in their home countries (Schaafsma and Sweetman, 2001; Green and Worswick, 2002). An immigrant with 20 years of work experience in another country will not necessarily have higher earnings than a similar immigrant with only five years experience.

This indicates that human capital gained in the home country, generated either through formal education or skills gained through on-the-job work experience, is often not valued by Canadian employers. It may be that with more time in Canada, small investments in re-training will allow for these skills to be better valued. However, current evidence indicates that while earnings based on experience in Canada may be higher for more recent immigrant groups, this is unlikely to offset the low earnings in the first years in Canada (Chui and Zietsma 2003).

Conclusion

The difficulties experienced by recent immigrants in adjusting to life in Canada raises the issue of whether Canadian immigration policy can be changed to ensure greater success in the future. A mounting body of research indicates that recent immigrants have not performed as well in the labour market as earlier ones at the same number of years in Canada. As a result, the target level of the total number of immigrants should not be raised. Only after changes in the system are implemented that lead to greater success in the labour market should Ottawa consider increases in the levels.

Because of the past shift towards economic immigrants, I would argue against further changes in that direction. The family and refugee categories are important parts of our immigration policy. Further cuts in the proportion of immigrants admitted under these criteria would threaten the success of the country's immigration policy in terms of meeting the family reunification needs, as well as eroding Canada's humanitarian commitment. Instead, the focus should be on learning why this shift towards economic immigrants has not led to better performance in the labour market.

I focus instead on the admission criteria for potential immigrants in the Skilled Worker Category.

The Skilled Worker Category is the primary mechanism for selecting immigrants, based on the likelihood of their success in the Canadian labour market. Because of the declining success of new immigrants in that regard, Canada must re-evaluate its approach to selection based on skills.

In skill-based selection of immigrants, a critical issue is the awarding of points for age and work experience. There is a growing consensus that the returns to foreign work experience are low for recent immigrants, with this effect being especially pronounced for those from non-traditional source countries. Yet, the points system, upon which admission under the Skilled Worker Category is based, rewards individuals for this type of work experience. Twenty-one points are given to an applicant for having just four years experience. Because of the low estimated returns in the Canadian labour market to foreign work experience, this allocation of points is difficult to justify.

In addition to the work-experience points, an applicant is given an additional 10 points for being aged 21-to-49. Applicants outside this age range receive two fewer points for every year over 49 or under 21. The upper age of the range should be reduced below 49 to increase the likelihood that more younger applicants, with time for increased training, are admitted.

In addition, the points should be based on the transferability of both the education and work experience. This would not be easy; however, it has the potential to lead to a much more successful group of immigrants being admitted through the Skilled Worker Category. Under the current system, all types of education and all types of work experience are treated equally, though certain types of education are more easily recognized by Canadian employers, as are certain types of work experience. A points system that rewarded educational credentials recognized as equivalent to Canadian credentials would be one option. A successful change in this direction would undoubtedly require advice from educational institutions in Canada, as well as employer groups. That assistance is readily available.

For example, graduate admissions committees in Canadian universities deal each year with the difficult task of assessing the likely preparedness of foreign applicants based on their education credentials. In addition, many companies recruit workers from overseas or hire immigrants who have foreign education credentials. In both cases, considerable expertise exists that could facilitate the introduction of a points system that incorporates the transferability of education and work experience in the selection of skilled workers.

A concern that naturally arises when the issue of employers' recognition of foreign credentials is raised is the possibility of discrimination. It may be that some employers choose not to recognize foreign credentials to avoid hiring candidates who are members of particular ethnic groups. This issue is difficult to address and the current system does very little to help. One advantage in having an immigration system that ranks different educational credentials is that this information could be made available to employers and to the immigrants, making it more difficult for employers to justify discrimination on the false grounds of inferior educational credentials.

A second valid concern is the existence of occupational barriers to credential recognition. This issue is most often raised in the case of the medical profession, but it is no doubt important in other areas, as well. In these cases, immigrants with foreign educational credentials that are comparable to Canadian ones may be unable to have those credentials recognized by the relevant professional association in Canada. An immigration system that tackles directly the issue of

comparing foreign educational credentials to their domestic equivalents would be helpful in terms of the process of forcing Canadian professional associations to recognize those that are equivalent to the Canadian ones.

Finally, our immigrant selection system should place a greater emphasis on employer sponsorship as part of the admission of skilled workers. The current system awards 10 points to applicants who have a confirmed offer of permanent employment. When compared to the returns to foreign experience of up to 21 points for having only four years of foreign work experience, this seems like a very small benefit. Increasing the points awarded for pre-arranged employment could lead to an inflow of skilled workers who hit the ground running with jobs that they find attractive and employers who not only recognize their skills (either educational credentials and/or foreign work experience) but also value them.

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